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IN THE

Supreme Court of the United States

OCTOBER TERM, 1944.

No. 2.

HARTFORD-EMPIRE COMPANY, *et al.*,

Appellants,

v.

UNITED STATES OF AMERICA,

Appellee.

APPEALS FROM THE DISTRICT COURT OF THE UNITED STATES FOR THE NORTHERN DISTRICT OF OHIO, WESTERN DIVISION.

REPLY BRIEF ON REARGUMENT FOR HARTFORD AND ITS INDIVIDUAL DEFENDANTS

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October 9, 1944.

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FOR

HARTFORD AND ITS INDIVIDUAL DEFENDANTS.

Introduction.

The Department—according to its new brief—seeks:

"* * * the restoration of competition" (p. 6).

We respectfully submit that the present judgment, as drafted below by the Department, fails to achieve this objective. On the contrary, we submit, competition in the container industry is thereby substantially curtailed.

I.

The Judgment Purports to Preserve Competition.

Background of the judgment.

The container manufacturers affected by this judgment, and the proportion of business done by each, are shown by the following table (Ex. GCA-6090, R. IX, 6625, R. XXVIII, 16250; Ex. GCA-6088, R. IX, 6624, R. XXVIII, 16248; Ex. GCA-6085-6, R. IX, 6624, R. XXVIII, 16245-6):

Company	Percent of business 1939
Owens	34.97%
Hazel-Atlas	16.03
Anchor-Hocking	7.25
Knox	6.36
Thatcher	3.40
Ball	3.33
Armstrong	3.16
27 others	25.50*

The record shows that the two largest companies, namely Owens (Ex. 781, R. III, 2002, R. XXI, 13,458) and Hazel-Atlas (R. VIII, 5618), spend substantial sums each year for research and development. Thus the expenditures of Owens during 1938-1940 were as follows:

1938	$1,456,099.13
1939	1,086,156.74
1940	1,127,461.39

The record shows no expenditures of any significance by the other container companies for research and development. On the contrary, it is undisputed that the large majority of these companies cannot afford to maintain the

* Three of these were non-licensees doing 2.6% of the business.

expensive staffs and facilities essential to modern research and development and have relied for these and other services upon Hartford (R. VII, 4971, 5374-5; R. IX, 6722-3, 6727, 6915-6; Ex. H-6152, R. IX, 6737, R. XII, 8571 *et seq.;* Government original brief, p. 363).

Role of Hartford.

Hartford, the defendant principally affected by the present judgment, has enabled the small container companies to compete with the large companies by furnishing all companies with machinery, research, and services of the highest quality. To refer briefly to the facts as stipulated by the Government:

(a) *What Hartford is:*

"'Hartford-Empire is * * * primarily a research and engineering company, which devises and perfects improved glass-working machinery, equipment and processes'" (Stip., R. VII, 5325-6).

(b) *How Hartford operates:*

"'Hartford installs such machinery and equipment, and furnishes, without charge, technical service and laboratory service in connection with the operation and maintenance of such machinery and equipment, and in connection with all phases of its licensees' manufacturing operations, including cost analyses and cost control'" (Stip., R. VII, 5326-7).

(c) *The resulting benefits:*

"This service is of great value, particularly to many of the smaller licensees which do not have facilities for research nor the trained employees necessary to service machines and plant operations" (Receiver's Report offered by the Government, p. 19).

"We will stipulate that the Hartford system is wonderful. It is the best system in the world. The best equipment, marvelous equipment" (Stip., R. VI, 4467).

(d) *The ultimate effects:*

"The installations of various items of Hartford-Empire equipment, and the various services rendered by Hartford-Empire to its licensees, including the Company's correlated activities have increased the production of glassware, reduced the cost thereof and improved the quality thereof and have stimulated and increased competition amongst said licensees between each other and between them and the manufacturers of containers of other materials" (Stip., Ex. H-6152, R. IX, 6737, R. XII, 8571 at 8595).

The last cited stipulation refers to the fact that Hartford has also contributed to maintaining the small glass container companies on a competitive basis with the manufacturers of paper, tin and plastic containers. This contribution has been of great importance (R. X, 7584-5). For the substantial inroads of non-glass materials into the container field is a matter of common knowledge; and research and development of a high order have been essential to maintain the competitive position of glass containers (R. IX, 6770).

Dependence of the small companies.

The destruction of Hartford—as a continuing source of research, development and service—would clearly be disastrous to the small glass container manufacturers.

For the small manufacturers would no longer be able to rely upon Hartford for the latest in efficient machines and services. They would therefore on the Government's own

premises be at a competitive disadvantage with the large manufacturers who maintain their own research and service staffs and facilities (Government's brief on reargument, pp. 137-138)—for whereas the small manufacturers would theoretically be licensed by the judgment under the patents of the large manufacturers (¶24, R. X, 7667-8), they would be unable to obtain any of the machines, developments, engineering "know how" or services of the large manufacturers, as the latter are not in the business of supplying them. The small companies thus would inevitably fall behind in the competitive race and sooner or later would be forced one by one either to sell out or to drop out of business. Instead of 40, there might eventually be 4 or less glass container manufacturers.

Small licensee after small licensee voluntarily offered so to testify below. Twenty offers of proof from as many small companies were made to this effect. (See *e. g.*, R. VII, 4967 *et seq.*; R. IX, 6720 *et seq.*).

Thus a typical witness offered to testify:

> "That the Diamond Glass Company maintains no research department devoted to improvement or development of tanks, feeding and forming mechanism or stacking and annealing equipment, and no chemical laboratory for research in the improved composition of glass, first because it could not afford to do so on an efficient and economic basis and second because it looks to Hartford-Empire Company to supply it continually with the last word in improved operating mechanisms and methods in order to keep it in a competitive position with the large companies which do maintain substantial research and development organizations" (R. VII, 4971).
>
> "That the Hartford-Empire Company has rendered and is rendering an invaluable service to the glass container industry, and particularly to the

smaller and medium-sized companies in the industry; * * * that the Hartford-Empire Company, by means of its research and development and engineering facilities, has kept and is keeping the small and medium-sized glass container manufacturers in a competitive position with the large units in the industry by continually aiding the small and medium-sized companies to reduce their costs and increase their productivity.

"That the destruction of Hartford-Empire Company would be an economic disaster to those small and medium-sized companies in the glass container industry and that the preservation of the Hartford-Empire Company is highly desirable to the continued existence of the small and medium-sized companies on a competitive basis in the glass container industry" (R. VII, 4974-5).

A number of these small companies were so fearful that Hartford might be destroyed by this suit—with a resulting destruction of the small companies—that they formally moved to be permitted to appear below. They stressed:

"(b) That all the parties to this motion are what may be commonly termed 'medium-sized and small' business enterprises in the glass industry, and by reason of that fact none of them can or does maintain the technical research and experimental departments necessary to keep their plants supplied with modern machinery and equipment, but rely exclusively upon the defendant, the Hartford-Empire Company for such services.

"(c) That, however, certain of the larger glass manufacturers, defendants herein, are able because of the volume of their business to maintain and do maintain the technical research and experimental departments necessary to keep themselves constantly supplied with all the newest and best methods in the manufacture of glassware.

> "(d) That if any decree entered herein shall have the practical effect of destroying or in any way substantially interfering with the services now rendered by the Hartford-Empire Company * * * the petitioners herein will be gradually forced out of business, and a few large manufacturers will have a virtual monopoly of the glassware business in the United States through no fault or act of their own" (R. IX, 6915-6).

Ruling of the trial court.

The trial court, on the basis of these facts (*cf.* Government Brief on reargument, p. 83), determined that Hartford should be preserved in order to preserve the competition of the small manufacturers.

Ruled the court:

> "Dissolution is not resorted to" (R. Op. Vol. 160).

The Government has summarized this ruling as follows:

> "* * * the decision was made to leave the Hartford organization and patents intact" (Government brief on reargument, p. 65).*

The Government below, although filing a formal request for the dissolution of Hartford, agreed that Hartford in some form should be preserved in the public interest.

Thus counsel for the Government conceded during the hearings of October 30, 1942 that:

> "The government is anxious to have Hartford operate. There is no dispute about that" (p. 56).

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* Contrast this statement of the Government with the inconsistent provisions of the judgment, discussed herein under Point II, which destroy both the organization and patents of Hartford.

Again, counsel for the Government at another time frankly admitted that:

> "Obviously the industry is going to continue to go on, and we hope it will continue to be served by an efficient servicing company; that there will be efficient development and research; and that there will be efficient machines put out. Obviously, the business that is now the Hartford Company, whether it continues as the Hartford Company or in some other form, is the one best fitted. It is the going business which should do this" (fol. 12639).*

The judgment was accordingly entered by the trial court on the professed premise that Hartford should, in the interests of free and vigorous competition, be preserved.

See generally the Government original brief at pages 335-337 and its brief on reargument at page 83.

II.

The Judgment In Fact Curtails Competition.

Contention of the Department.

The Department, in its brief on reargument, contends that the judgment fully achieves its alleged objective of "restoring" competition.

It flatly denies that the judgment destroys Hartford (Government brief on reargument, p. 16) and therefore concludes that competition from the small manufacturers will not be curtailed thereby (Government original brief, p. 337, fn. 85a).

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* Folio references are to portions of the record on appeal not printed, but to which reference can be made by stipulation between counsel (R. XXVIII, 16531).

The contention of the Department, in short, is that:

> "* * * the judgment permits Hartford to remain in business as a servicing and research organization" (Government brief on reargument, pp. 17-18).

The Department, however, ignores obvious facts.

The judgment completely destroys Hartford.

This is no empty statement inserted in this brief for purposes of argument. It is an economic fact. Hartford cannot possibly continue to function as a research and engineering company under the terms of the present judgment—however much the Department may protest to the contrary—and it takes but a brief glance at the judgment to demonstrate this.

Prohibition of leasing.

In the first place, Hartford cannot continue as a research and engineering company because the judgment enjoins it from leasing machinery (¶21, R. X, 7665-6).

Hartford, we have previously pointed out, provides its licensees with a comprehensive and integrated program of research, development and service. A large staff of engineers, chemists, physicists and other skilled technicians and specialists—and elaborate attendant facilities—are devoted by the Company to the continuous improvement and development of glass formulae, methods, processes, furnaces and machines; and the resulting inventions, "know-how" and developments are incorporated into the manufacturing equipment and methods of the licensees. In addition, statistical analyses, plant and other industrial engineering surveys, glass and operating technique, periodic operating checkups and many other services too numerous to mention

are furnished to insure maximum operating efficiency on the part of these licensees.

This program—without leasing—would be impossible.

Proposed income from sales: Hartford could not possibly finance this extensive research and service program from profits derived through the sale of machines—as suggested by the Department (Government brief on reargument, p. 18). These machines are long lived and highly productive—with the result that the market for new machines is limited. See Ex. H-5749 (R. VIII, 5733, R. XXVII, 15435), which shows for example that Hartford distributed 30 feeders and 22 I. S. forming machines in 1939, 33 feeders and 50 I. S. forming machines in 1940, and 48 feeders and 24 I. S. forming machines in 1941 (See also the Receiver's Report offered by the Government, at p. 17). Hartford could never sell this number of machines at sufficiently high prices to enable it to finance any sound program of research, development and service.

A recovery by Hartford, through sale, of the *manufacturing cost* of these few machines—plus a manufacturer's profit thereon—could not possibly recover in addition the cost of research and development.

Hartford has never in the past recovered any of its tremendous expenses for research and development through the initial license fees which it has charged its licensees upon the delivery of its leased machines—although the Department mistakenly implies to the contrary (Government brief on reargument, p. 59). It solely recovers thereby part of the manufacturing cost of the machines (R. VIII, 5812, 5814; Receiver's Report offered by the Government, p. 17). If Hartford had sought to charge its research, development and experimental work entering into its machines as a lump sum license fee or sales price,

no manufacturer—other than the very large ones—could have afforded to pay it.

Proposed income from repair service: Hartford likewise could not finance its basic research and service program from mere service contracts pursuant to which Hartford would undertake to "tinker" with the machines when mechanical failures occur—as likewise suggested by the Government (Transcript of November, 1943 argument, pp. 336-7). Modern research and development—involving the underwriting of huge fixed costs in the form of skilled scientists and engineers and expensive physical facilities—could not be financed by Hartford from the mercurial profits of a mechanic.

Proposed income from future patents: Finally, Hartford obviously could not finance its research and service program from royalties arising out of non-existent future inventions—the last suggestion of the Department (Government brief on reargument, p. 18). Hartford can hardly live now on royalties to be received in the future.

Necessity for income from leases: Hartford has found from experience—and is ready to prove by outside consulting experts if afforded an opportunity to be heard on the issue—that it can only survive as a research and engineering company through leasing and licensing machines for whose efficiency and improvement it is responsible. The rental or royalty resulting therefrom alone insures a steady income to the lessor—repaying the costs of its integrated program of research, development and services over the years in proportionately modest charges readily afforded by the small as well as by the large manufacturers.

Research and development are necessarily speculative. Few projects undertaken actually materialize into something useful. Without a steady income—from leases—to

finance a broad research program, an engineering company can accomplish little.

The excuse given by the Department for banning Hartford's leasing, it should be noted, is that thereunder Hartford has the:

> "* * * power to repossess the machines" (Government brief on reargument, p. 57).

It is obvious that injunctive provisions directed at Hartford's exercise of the power to repossess would fully achieve the Department's purposes of controlling that power—if such power is found objectionable—without banning leasing itself and thereby crippling Hartford.

Confiscation of assets.

In the second place, Hartford cannot continue as a research and engineering company because the judgment confiscates its assets.

The Government has asserted that:

> "Your Honor, we do not want any confiscation here under any circumstances" (R. I, 604).

The judgment, however, provides otherwise.

Contractual assets: The judgment cancels and thereby confiscates Hartford assets in so far as represented by its contractual arrangements with other parties (¶¶27-28, R. X, 7670-2).

These contracts are non-exclusive, unlimited licenses from Hartford to its licensees—and non-exclusive cross-licenses with other patentees—from which Hartford deleted, in an effort to avoid this suit after the filing of the complaint but before trial, the provisions objected to by the Department (Hartford main brief, pp. 69-73).

The Government concedes that these contracts, in their present form, have thrown the fields of the container industry "wide open" (fol. 3695). The Government further agrees that the test for determining whether or not these voluntary changes have properly revised the contracts is whether the changes were made "against the wishes and without the knowledge of the trial court and of the Department" (Government brief on reargument, p. 150).

The record conclusively demonstrates—despite the contrary assertions of the Department—that the contracts were properly revised and thus should stand. Hartford took no action until it had received the Department's list of objections to its contracts (R. I, 573-5; R. IX, 6694-5; Ex. H-6113, R. IX, 6695, R. XXVIII, 16256-61), had described in great detail *in open court* the revisions it wished to make to conform to the Department's list (R. I, 575-85, 607-12, 626), had obtained the approval of the Department *in open court* for these contemplated revisions (R. 602), and then only proceeded to negotiate the resulting revisions of its contracts throwing open the fields to all (fol. 3695).

Thus the Government—before Hartford had made a single change in its contracts—had approved Hartford's detailed outline of the changes it was seeking to make with the following statement in open court:

> "* * * the government was quite pleased to hear that Hartford is willing to give up practically all the restrictions and practices complained of in the complaint, other than to dissolve itself" (R. I, 602).

Patent assets: The judgment further compels royalty-free licensing and thereby confiscates Hartford's assets in so far as represented by its patents (¶24 (a), 7667-8).

These patents represent thirty years of research, covering revolutionary inventions of great benefit to the public

(Hartford main brief, pp. 13-15, 24). The Department lists Hartford as having 755 unexpired patents (Government brief on reargument, p. 198), of which 4 only are charged by the Department as tainted with alleged fraud (Id., pp. 108-112, 130-131).

The Department does claim that 185 of these patents—and possibly "some" others—were acquired from outside parties (Id., p. 201), but it objects to Hartford disposing of them as not feasible or helpful (Government original brief, p. 332). The Department also seeks to becloud the merit of a few of the others by attacks upon alleged Hartford Patent Office practices (fully discussed in Hartford's previous reply brief, pp. 8-26), but disowns any contention that these practices resulted in any incorrect decisions by the Patent Office or in invalid patents (Stip., R. VIII, 5634-5).

The overwhelming majority of these Hartford patents are free of illegality—even under the extreme theories of the Department—other than that they were owned or licensed by Hartford.

The Department nevertheless has conceded in the prior oral argument that all of these patents—however valuable—are to be destroyed by the judgment:

> "The Chief Justice: Is there anything left for the stockholder, no matter how valuable these patents are?
>
> "Mr. Cox: Under the present patents there is no value left in the patents" (Transcript of November, 1943 argument, p. 334).

This destruction of Hartford patents, it should be noted, would primarily benefit the other defendants in this suit—who would be able to use those patents royalty-free as a windfall in reward for their alleged wrongful acts.

Machine assets: The judgment orders the sale of Hartford's leased machines, and thereby confiscates Hartford's machine assets (¶22, R. X, 7666).

These machines are leased in order to enable Hartford to obtain a steady income with which to finance its research and development. The judgment, by ordering the compulsory sale of these machines, simultaneously destroys both that income and Hartford's research and development dependent thereon.

The judgment further provides that Hartford may not even get a "reasonable" market price for these machines—despite the Department's repeated assertions to the contrary (Government brief on reargument, pp. 17, 52, 66). The judgment expressly qualifies Hartford's right to obtain a "reasonable" price by requiring that such a price be determined after "taking into consideration"—which can only mean after deduction to some undefined extent—all sums paid by lessees for the past possession and use of the machines. The sums thus deducted from a "reasonable price", it should be clearly understood, were not paid as installments on any purchase price—the judgment itself characterizing them as:

> "* * * the license or other rental fee heretofore paid * * * and the royalties" (R. X, 7666).

In other words, the judgment here provides the licensees —including the defendants herein—with another windfall at Hartford's expense, namely, with Hartford's machines at nominal prices.

Other capital assets. The judgment then confiscates remaining capital assets of Hartford through requiring the Receiver to operate Hartford for the benefit of licensees out of capital (¶¶ 10-20, R. X, 7661).

The Department has submitted to the Court the Report of the Receiver, dated August 28, 1944, which shows that the Receiver has depleted Hartford's operating cash at the rate of $90,000 per month (Report, p. 21). In addition, the Receiver has liquidated and transferred into Hartford's cash account other assets—which the Receiver has spent in addition to the $90,000 a month—as follows:

(a) $604,000 owed by licensees to Hartford for royalty obligations incurred prior to the receivership (Id., p. 24), and

(b) $778,624 (less $209,369) owing to Hartford and impounded under the Hartford-Hazel-Atlas Impounding Order (Id., pp. 26, 56).

The lower court on May 25, 1944 found, according to the Receiver's Report, that the *total* dissipation of Hartford's capital assets since August 31, 1942 was:

"* * * about $162,000 each month" (Id., p. 53).

This rate of depletion would approximate a net deficit of $4,000,000 for the period of September 1, 1942 to October 1, 1944—offset only by Hartford's undetermined right to some unidentified part of its earmarked income.*

Confiscation of income.

In the third place, Hartford cannot continue as a research and engineering company because the judgment confiscates its income (¶15, R. X, 7663-4).

The judgment orders the earmarking and return to licensees of Hartford's current royalty income, even though that royalty income is paid for machines, inventions, devel-

* Hartford's accounting records indicate that the current net worth of the company has actually been depleted by slightly under $3,500,000 for this period.

opments, services and other benefits which Hartford is *forced* by the lower court (See Receiver's Report offered by the Government, p. 16) to provide the licensees.

Denial of payment: Hartford has no assurance whatever that it will be paid anything out of its earmarked royalty income for its compulsory rendering of benefits to licensees, however much the Government may protest to the contrary. (See joint brief for appellants, pp. 68-73.)

It is true that the Receiver in his Report states that he believes he should obtain for Hartford out of the earmarked income:

> "* * * a substantial portion of the earmarked funds" (p. 27).

It is also true that Government counsel in his oral argument similarly took the position that Hartford should obtain:

> "* * * a substantial amount of money" (Transcript of November, 1943 argument, p. 353).

The concluding clause of the earmarking Paragraph (¶15, R. X, 7663-4), however, which suggests that Hartford might obtain part of the earmarked funds, is so hedged and vaguely phrased that Hartford is not sure of obtaining *any* substantial amount from the earmarked fund. The Department thus phrased the clause "deliberately" (R. IX, 6901) —in violation of the salutary rule in *J. I. Case* v. *National Labor Relations Board*, 321 U. S. 332, 341, that orders should not be so indefinite as to invite litigation—on the theory that:

> "* * * it ought to be left vague" (R. IX, 6901).

To demonstrate Hartford's lack of assurance of any substantial payment from its earmarked income:

(a) The Paragraph seems to deny reimbursement to Hartford for its investment in research and development made prior to the receivership—which investment is properly allocated in part to its current income as such income reaps benefit from that past expense—because the Paragraph refers only to reimbursement of monies "paid out by the Receiver".

(b) The Paragraph seems to deny reimbursement to Hartford of its general overhead and other expenses which it was forced to incur during the receivership—including its expenses for research and development devoted to the entire technique of producing glassware from raw material to finished product and its other general services related to no particular licensee—because the Paragraph refers only to reimbursement of monies paid out "for the benefit" of particular licensees.

(c) The Paragraph seems to deny reimbursement to Hartford for the beneficial use by licensees of its physical machines—and for the ingenious, skillful and costly engineering and development embodied therein—because as previously pointed out the Paragraph refers only to reimbursement of monies "paid out by the Receiver".

(d) The Paragraph seems to deny reimbursement to Hartford for the use by licensees of its patented inventions during the receivership—although they were of revolutionary nature—and the Government frankly so interprets the judgment provisions (Government brief on reargument, p. 52).

(e) The Paragraph finally throws doubt upon the reimbursement to Hartford of any sums whatever—for it conditions any reimbursement upon a finding that the amount is "properly chargeable and allocable."

Right to payments: This earmarked royalty income should, both in law and equity, go to Hartford. The Company has been forced to perform under these contracts, and accordingly it should receive the contracted consideration paid in by licensees for the benefits it thus furnished.

This Hartford income has been paid pursuant to the terms of *non-exclusive, unlimited* licenses, enforced by a *court receiver.* No possible restraint of trade was therefore involved.

This Hartford income has been derived, moreover, from royalties which the Government concedes to be reasonable. Counsel for the Government has expressly acknowledged that:

> "I didn't say the royalties are high. We never attacked their royalties" (R. VII, 5331).

The Department does claim, through an attempted limitation of this concession, that Hartford's royalty income is excessive—allegedly greater than the benefits received by the licensees (Government brief on reargument, pp. 50-51). This contention is manifestly absurd, for Hartford's income is merely the sum of its constituent parts, i. e. its royalties, and if the parts are conceded to be reasonable the whole or total income must be also. The following facts substantiate this obvious conclusion:

> (a) *Rate of royalty:* The royalties currently confiscated average but 3.5% of the selling price of the product—regarded universally in industry as a low rate for royalty contracts. They are paid by the licensees in return for novel machines and services resulting in great savings to the licensees and a superior product at lower prices to the public. This rate is far less than the savings achieved through the licenses by the licensees (Hartford main brief, pp. 15, 54-55, 66).

(b) *Rate of return:* These royalties are naturally in excess of current out-of-pocket expenses. A research, engineering and development company always recovers at least part of the cost of past research and expenses by royalties paid in subsequent years. Hartford had nothing but losses during its first ten years of existence and earned but 11.3% on its invested capital during 1912-1939 (Exs. H-5803 and H-5803A, R. VIII, 5838, R. IX, 6809, R. XXVII, 15455-6) as compared with 7.8% for ordinary and less hazardous businesses (R. VIII, 5896).

(c) *Basis for computation:* The true test of the reasonableness of Hartford's royalties, of course, is the value of the benefits provided therefor and not the invested capital involved. Income from patented inventions and engineering services are no more to be tested on the basis of ratio of net income to invested capital than income from other products of the mind. An inventor, like an author, is not rewarded on the basis of his "invested capital". This may be practically nothing at all. He is rewarded on the basis of the value of his invention as an improvement over the prior art. Hartford's contributions over the prior art—we have previously pointed out—were revolutionary (Hartford main brief, pp. 13-15).

(d) *Patents:* The Government implies that in so far as the royalties were paid for patents, they were paid for fraudulent patents (Government brief on reargument, p. 50). The unfairness of this assertion is evidenced by the fact that the most extreme charge of fraud which the Government can muster—in repudiation of its stipulation to the contrary (Stip., R. VIII, 5634-5)—is that but 4 (*id.*, pp. 108-112, 130-131) out of 755 (*id.*, p. 198) Hartford patents are so accused.

(e) *Patent applications:* The Department also implies that, in so far as Hartford collected royalties

in the past for machines not then covered by issued patents, it has collected money to which it was not entitled and thus has swelled its total income over the years unduly (Government brief on reargument, p. 91). The Department fails to point out, however, that these machines were Hartford's inventions covered by Hartford's patent applications on which patents subsequently issued, and that it is both customary and lawful to collect royalties on one's inventions during the pendency of patent applications thereon (Hartford's original reply brief, pp. 46-48).

(f) *"Rentals":* The Government, incidentally, misconstrues the Hartford bookkeeping entry "earned machine rentals" as income (Government brief on reargument, p. 49, fn. 35). This item represents lump sums received by Hartford from lessees to cover *part* of the *manufacturing cost* of machines leased, which sums are allocated or apportioned for accounting purposes over a period of years.

The Government, it should be added, urges that all the licensees who have been paying this royalty income to Hartford—including the defendants—have been beneficiaries of and to that extent participants in the transactions in this suit (Government brief on reargument, pp. 50, 59, 152-3). Even on the Government's theory, therefore, it would seem inequitable to discriminate between these parties by requiring one (Hartford) to furnish benefits under court supervision to the others (licensees), and yet to deny to the former payments made therefor which are reasonable (Stip., R. VII, 5331). Under what possible theory of law or equity can a defendant be compelled to furnish others with a tremendous free windfall of this nature?

Impounding of cash payments.

In the fourth place, the judgment as interpreted by the Department even questions the payment to Hartford of part of the Hartford-impounded funds involving Hazel-Atlas.

The Government contends that the impounded funds involving Ball, Corning and Hazel-Atlas (¶¶44-46, R. X, 7683-4) should go back to Hartford (Government original brief, pp. 412 and 414, and brief on reargument, pp. 191 and 194-5). It asserts, however, that a portion of the Hartford-Hazel-Atlas fund should be turned over by Hartford to its licensees, if "practical".

This latter suggestion is totally without merit.

No legal basis: The Government's suggestion is in no manner justified by the ruling of the lower court on which the judgment is premised.

Hazel-Atlas was paying royalties for machines embodying Hartford inventions. Hazel-Atlas was receiving, under the 1932 settlement, a share of Hartford's income. The lower court—disregarding the considerations outlined in defendants' main briefs in defense of the contracts involved—ruled in effect that Hartford should not share its income with Hazel-Atlas.

There is no conceivable justification under this ruling for requiring Hartford to take the part of its income impounded in the Hartford-Hazel-Atlas fund, which the court ruled it should not share with Hazel-Atlas, and instead share it as a bounty with licensees. The Government in making its suggestion is merely seeking to be generous with someone else's money.

No practical basis: The Government's suggestion furthermore is totally impractical. There is no legal basis for

any division of this portion of Hartford's income among licensees; and a rough non-legal division on the basis of royalties previously paid to Hartford would only award the principal part of the money to the large defendant companies herein and not to those alleged to have been "injured by the conspiracy". Indeed on the Government's theory all the licensees were beneficiaries of—rather than victims of—the alleged conspiracy (Government brief on reargument, pp. 50, 59, 152-3). All were licensees operating under and receiving the benefits of the licenses here attacked. All were members of GCA. These licensees cannot, therefore, provide any intelligent basis for a division of Hartford's income among them as "injured" parties.

Imposition of restraints.

Finally, Hartford cannot continue as a research and engineering company because the judgment imposes upon it cumulative restraints harsh in nature and impractical in operation.

To mention a few of these restraints:

Receivership: One of the most drastic restraints imposed upon Hartford was the appointment of a receiver to take the Company out of the hands of its management and to operate it during the court's pleasure (¶¶10-20, R. X, 7661-5).

The most cursory examination of the three reasons given for this action (Government brief on reargument, pp. 41-42) demonstrates the lack of necessity for such an unprecedented step:

(a) *Alleged necessity to prevent payments:* Hartford had promised in open court that it would remove from its licenses the restrictions objected to by the Department (R. I, 575-85, 607, 610-12, 626). It was unable to fulfill this promise unilaterally, how-

ever, and found it necessary to pay sums to Ball and Corning in order to obtain the release of their exclusive patent rights. Hartford accordingly made these payments in the belief that it was thereby fulfilling its promise to achieve the objectives of the Government (See page 13, *supra*). It made the further transfer of three minor patents to Corning at the suggestion of the Government itself (Stip., Ex. C-6119, R. IX, 6749, R. XII, 8567). Hartford certainly would not have paid out this money or transferred these patents if it had thought that this action was not to accomplish its intended result of satisfying both court and Department. A drastic receivership would seem to be an extreme penalty to impose upon a defendant for doing what it believed to be desired by the court—particularly when an injunction punishable by contempt would have been amply sufficient to prevent any and all transfers of cash or other assets by that defendant pending appeal.

(b) *Alleged necessity to prevent violations:* Hartford had no intention to violate the orders of the trial court—and even if the court had believed otherwise an injunction punishable by contempt would again have been fully adequate. Here also there is no need shown for a receivership. Is the precedent now to be set that a court may assume the task of operating the business of a defendant in an anti-trust suit whenever it sees fit?

(c) *Alleged necessity to protect Hartford:* Hartford never asked for this so-called "protection" of the Receiver and repeatedly asked to be relieved of it (R. X, 7581-2. See also 7514, 7526-9, 7535-51). Surely Hartford had the right to elect whether or not it was to receive "protection"—for our jurisprudence has never approved the doctrine of "protecting" unwilling victims. Here again, therefore, the lack of any necessity for a receivership is demonstrated.

Trade secrets: Another of the drastic restraints imposed by the judgment upon Hartford was that it required Hartford to disclose and thereby destroy certain of its most vital trade secrets—namely its patterns and drawings (¶24 (c), 7667-8).

Hartford has spent 30 years of research and development in acquiring its present "know-how" of machinery manufacture, represented in large part by its patterns and drawings—totally unpatented. It has few trade secrets of more vital importance. Yet these secrets are ordered to be disclosed to all—even to its competitors—in return for payment of the mere cost of preparing copies plus some undefined "reasonable" profit.

This restraint, it should be further noted, applies in perpetuity in the future, and thereby destroys all incentive of Hartford to continue any machine research and development. What incentive could Hartford possibly have if every new design or pattern of a machine developed by it must be made available—however valuable—to all its competitors?

Apparently the Government now concedes that this result is erroneous, for it states:

> "This paragraph should not be construed to call for the disclosure of 'trade secrets' in the strict sense of that term" (Government brief on reargument, p. 144).

As this provision of the judgment solely deals with trade secrets, the Department in substance—though not in words—consents to its deletion.

Statistical services: A still further drastic restraint imposed upon Hartford by the judgment is its unintended ban of Hartford's statistical services to its individual licensees (¶40, R. X, 7680-2).

The Government has not disputed Hartford's objections to the judgment on this score (See joint brief for appellants, pp. 156-157). Indeed, it concedes that the judgment should not prohibit the preparation for and disclosure to a manufacturer of statistical findings relating to that particular manufacturer (Government brief on reargument, p. 183, fn. 92).

This interpretation—not apparent in the language of the judgment as now drafted—should be expressly written into that document.

Other restraints: The other restraints of the judgment need no answer here. The arbitrary and unworkable nature of these restraints has been treated at length in the joint brief for appellants, and we believe that every argument made by the Department in connection therewith has been adequately answered in that joint brief.

Destruction of Hartford.

The cumulative effect of these forfeitures and restraints, needless to say, would be to destroy every vestige of life in Hartford.

Hartford could not possibly supply the small container manufacturer with a worth while research, development and service program—competitive with the $1,000,000 per year expenditures for this purpose of one large glass manufacturer alone—if it is forbidden to lease, is deprived of its patents and machines, is denied its income, is required to operate at a substantial deficit, forfeits even impounded money owing to it, and is subjected to restraints destroying all incentive to operate.

The judgment, thereby, in wiping out Hartford, would deny to the small manufacturer his principal access to research and service, would correspondingly weaken his ability to compete, would insure the survival of the few com-

panies able to supply their own research and service, and inevitably would curtail—rather than promote—competition.

The judgment further would insure the freezing of the industry's technology, except as developed by the large manufacturers; and the developments of the latter would of course be kept to themselves by those manufacturers—even if compulsory licensing of patents were required—through the simple expedient of these manufacturers declining to take out patents thereon.

Finally, the small stockholders in Hartford, and its employees whose livelihood is tied up with the Company, would suffer irreparable injury. The records of Hartford show that 96.52% of Hartford's stockholders, holding 57.18% of Hartford's outstanding stock, have in no wise participated in the transactions in this suit (Stip., Ex. 1583, R. VI, 3941, 8096; Ex. C-5652, R. VII, 5508, R. XXVI, 15355).*

III.

The Judgment Clearly Should Be Modified.

Necessity for modification.

The present judgment is clearly erroneous.

Judgment provisions which allegedly seek to preserve Hartford in the interest of a competitive industry, but in effect destroy it, obviously require either drastic modification or deletion.

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* The Department estimates that 56% in amount of Hartford's stock is held by participants in the transactions in this suit (Government brief on reargument, p. 48, fn. 48). The Department obtains this figure, however, only by collectively designating every innocent ex-stockholder of dissolved Empire—receiving Hartford stock upon that dissolution—as a knowing participant through Empire in the transactions here attacked.

The authorities cited by the Department, allegedly in support of the judgment, themselves conclusively demonstrate the lack of merit in the judgment provisions.

Application of the judgment.

The Department initially advances certain broad theories, in defense of the manner in which the present judgment is applied to the defendants herein.

It fails, however, to cite a single convincing authority supporting these theories.

(a) *Standard Oil theory:*

The Department argues, for example, that *Standard Oil Company* v. *United States,* 221 U. S. 1, authorizes the application to the defendants of the drastic confiscations and restraints of the present judgment (Government brief on reargument, pp. 5, 75-78).

That case, however, went no further than to authorize dissolution—and *"thus"* neutralization—of an unlawful combination (221 U. S., at 77-78). It did not authorize either confiscation or the denial of lawful rights where lawfully exercised. The opinion in that case continued beyond the portion quoted by the Department with the significant statement (p. 78) that the remedy to be applied:

> (1) Should not injure the public (whereas the present judgment does, by destroying an effective agency for competition—Hartford) and
>
> (2) Should protect, not destroy, rights of property (whereas the present judgment sweepingly confiscates property).

To summarize: The *Standard Oil* case did not in any manner authorize the destruction of property or the forfeiture of lawful rights as herein sought.

(b) *Conspiracy theory:*

The Department further contends that *Local 167* v. *United States,* 291 U. S. 293, authorizes the application of the confiscations and restraints of the present judgment in the same manner and to the same extent to all the defendants (Government brief on reargument, pp. 13-14, 69).

That case, however, simply enjoined all the defendants who had engaged in or had encouraged physical violence from indulging in acts illegal *per se.* There was no attempt whatever in that case—as here—to confiscate the property of one defendant for the alleged acts of another, which the former had never contemplated. The case was fully in accord with the traditional rule of equity, correctly referred to by the Government in its brief on reargument at page 126, that equity adopts or rejects remedies not on the basis that all defendants must be treated alike, but rather on the basis that the remedies must be appropriate to the particular facts of the particular defendant.

To summarize: This *Local 167* case did not even remotely suggest the absurdly harsh rule of the present case that 59 individual defendants, who have never held any patents and do not contemplate doing so, should be subject to exactly the same obligations and restraints as a corporation alleged to hold 755 patents (Government brief on reargument, p. 198).

(c) *Related acts theory:*

The Department in addition contends that *Local 167* v. *United States,* 291 U. S. 293 and *National Labor Relations Board* v. *Express Publishing Company,* 312 U. S. 426, authorize the application of the confiscations and restraints of the present judgment to fields of business in which none

of the defendants have participated (Government brief on reargument, pp. 7-9, 29-30, 33).

Those cases, we concede, did authorize the application of an injunction—prohibiting acts unlawful *per se*—to acts closely "related" to those of the violation. The first case, however, permitted the application of the judgment only to those commodities "related" to the unlawful acts which were "necessary" to the business of the defendants (p. 299) and not to commodities never dealt with; and the second case warned that an order enjoining "related" acts should be "restricted" to threatened unlawful acts (pp. 436-7) and not to acts not even contemplated by the defendants.

To summarize: Those cases in no manner suggested that a defendant engaged in one specialized field of glassware might be subjected to restraints and forfeitures with respect to all glassware—however foreign to the business of that defendant—and with respect to acts never even contemplated by that defendant.

(d) *Findings and conclusions:*

The Department also seeks to imply that in any event the findings and conclusions of the trial court in this case—which it cites copiously—should be controlling on the application of the judgment provisions.

It is obvious, however, that these findings and conclusions are not binding here, as the defendants have assigned error thereto and have previously discussed them to the extent that time and space permitted.

Certainly any legal theories of the findings and conclusions on relief, in so far as incorporated therein by the Department, would not be binding here.

Baumgartner v. *United States*, 64 Sup. Ct. Rep. 1240.

Content of the judgment.

The Department—in addition to advancing the above unsupportable theories relating to the application of the judgment to the defendants—advances two major contentions with respect to the judgment's content. These are—

First: That acts legal *per se*, where entirely disassociated from any unlawful conspiracy, may be forbidden in perpetuity under the anti-trust laws—and that therefore the restraints upon Hartford discussed above, such as the ban upon lawful leasing, are proper.

Second: That patents, licensed pursuant to allegedly unlawful agreements, may be confiscated under the anti-trust laws—and that therefore the confiscation of Hartford's patent assets, above discussed, is proper.

Here also no convincing authorities in support of its contentions are cited by the Department.

Acts lawful *per se*.

The Department—in seeking to support its contention that lawful acts lawfully performed may be enjoined—concentrates its fire particularly upon Hartford leasing (Government brief on reargument, pp. 55-61).

We turn therefore to the Hartford leases.

The Government has stipulated that the patented machines furnished by Hartford pursuant to its leases are:

> "The best equipment, marvelous equipment" (Stip. R. VI, 4467)

The Government has further stipulated that the services rendered by Hartford pursuant to its leases have:

> "• • • increased the production of glassware, reduced the cost thereof and improved the quality

thereof and have stimulated and increased competition" (Stip., Ex. H-6152, R. IX, 6737, R. XII, 8571 at 8595).

No decision of this Court now cited by the Government in any manner upholds a perpetual ban upon lawful leasing having these stipulated beneficial results—including that of "increasing competition". At most the cases cited imply that leasing, while lawful in and of itself, may be enjoined in so far as it shall be used in the future as part of an unlawful plan.

(a) *Cases not involving leasing:*

(1) *Ethyl Gasoline Corp.* v. *United States*, 309 U. S. 436, did not ban leasing of patented machines. It did not even involve leasing. There (1) certain patents, (2) certain licenses to refiners and (3) certain resale price maintenance agreements (termed "licenses") with jobbers were found to have been used to violate the anti-trust laws. This Court left the patents intact; revised the licenses to refiners by the deletion of objectionable clauses; and solely ordered cancelled the illegal resale price maintenance agreements or "licenses". In its opinion this Court significantly noted that the unlawful resale price maintenance agreements were not necessary to promote any lawful objective (pp. 451, 459-61), and for this reason approved the unconditional ban upon those unlawful agreements—there being no "countervailing reasons" for their continuance in order to "carry out other lawful purposes" (p. 461).

(2) *United States* v. *Univis Lens Co.*, 316 U. S. 241, likewise neither banned leasing of patented machines nor involved leasing. The patent situation of that case was basically similar to that of the *Ethyl* case. The patents were left intact; a bona fide license to a lens company was retained; and only

resale price maintenance "licenses" were stricken down. This Court, in banning the fictitious "licenses", emphasized that "Agreements for price maintenance" are, "without more" unreasonable restraints (p. 252). This Court did not seek to ban any lawful acts but to strike down solely the general licensing "scheme" (p. 254).

(3) *United States* v. *Bausch & Lomb Co.*, 321 U. S. 707, similarly, neither banned leasing of patented machines nor involved leasing. It merely struck down unlawful resale price maintenance agreements—ancillary to sales—and banned ancillary Miller Tydings resale price maintenance contracts for a temporary 6 months period. It further held expressly that the lawful right to select customers—there alleged to be abused—had not been lost thereby, because the Sherman Act was not intended "to interfere with ordinary commercial practices" (p. 728).

(b) *Cases involving leasing:*

(1) *United Shoe Machinery Co.* v. *United States*, 258 U. S. 451, cited by the Government in another connection, did involve the leasing of patented machines. This Court carefully refrained in that case from either confiscating patents or from outlawing leases. Instead the Court proceeded to insure that neither patents nor leases would be misused in the future by enjoining the use of seven clauses in the lease contracts which had permitted the lessor to exercise unlawful control over lessees.

(2) *International Business Machines Corp.* v. *United States*, 298 U. S. 131, is another case cited by the Government involving the leasing of patented machines. This Court again carefully preserved patents and leases—enjoining only the use of specified clauses which had enabled the lessor to exercise unlawful control over lessees.

Again, may we suggest that if Hartford's power of repossessing machinery is in any respect objectionable (Government brief on reargument, pp. 57-58), the judgment should seek to control the manner in which Hartford repossesses rather than to forbid all leasing whatever.

Confiscation of patents.

The Department, in seeking to support its second contention, namely, that patents may be confiscated (Government brief on reargument, p. 71 *et seq.*), concentrates upon Hartford's patents.

We turn therefore to the Hartford patents.

The Government has unequivocally stipulated that it does not in this proceeding attack the validity of the patents obtained by Hartford on its inventions or the propriety of the awards relating thereto in the interference proceedings (Hartford main brief, pp. 13-15, 24), although reserving the right to attack certain of Hartford's patents in direct patent proceedings.

Thus the Government has formally stipulated:

> *"(a) That plaintiff does not and will not, in this suit, contest or question the validity of any patent or patents* • • •
>
> *"(b) That plaintiff does not and will not, in this suit, contest or question the correctness or propriety of any award of priority by the United States Patent Office in any interference"* (Stip., R. VIII, 5635).

Again, counsel for the Government has reiterated:

> "So that there may be no misunderstanding, the Government—not in *this* case but in *other* cases—may attack the correctness of the issuance of any patent" (R. VIII, 5637). (Italics supplied.)

No decision of this Court now cited by the Government in any manner upholds the outright confiscation of patents on

basic inventions in anti-trust proceedings where the validity of the patents has thus been stipulated out of the case.

Indeed, no such decision could possibly so apply to the instant case, because on the basis of the Government's stipulation Hartford *was repeatedly denied the right to introduce evidence to substantiate the validity of its patents and the propriety of the Patent Office awards of priority to its inventions* (Hartford reply brief, pp. 2-7). According to the Department, four* (Government brief on reargument, pp. 108-112, 130-131) of Hartford's 755 patents (Id., p. 198) may be subject to attack in direct proceedings brought by the Government to test their validity, where Hartford would have an opportunity to present its side of the case; but any such attack here where the mouths of defendant's witnesses have been closed by the trial court would be a gross injustice.

The fact is that this Court—as shown by the cases cited by the Department and by the defendants (Hartford original reply brief, pp. 62-64)—has uniformly declined to approve of patent forfeiture in anti-trust proceedings. Thus, to refer briefly to the principal cases cited by the Department:

(a) *Cases not ruling on patent confiscation:*

(1) *United States* v. *Terminal Railroad Association of St. Louis,* 224 U. S. 383, and similar lower federal court cases did not involve any confiscation of patents or other property for violation of the anti-trust laws. To adopt the description of that case by Government counsel, this Court there permitted the use of a monopolistic terminal facility by any carrier upon payment of "reasonable compensation" (Transcript of November, 1943 argument, p. 324).

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* One of these patents expires within 3 months (Peiler 1, 655, 391, R. XIV, 10401).

(2) *Standard Oil Co.* v. *United States,* 221 U. S. 1, and the many other dissolution cases cited by the Department, as we have previously noted, did not involve any confiscation of any nature for violation of the anti-trust laws. Property was there ordered to be divested—not destroyed. This Court expressly warned that the Sherman Act was intended "to protect, not to destroy, rights of property" (p. 78). It is absurd to argue that the intrinsic value of the property there divested was confiscated—or that the stockholders of the Standard Oil Company, the Tobacco Company or the Union Pacific Railroad, or any of the other divestment cases, were materially injured.

(3) *Morton Salt Co.* v. *The G. S. Suppiger Co.,* 314 U. S. 488; *B. B. Chemical Co.* v. *Elmer A. Ellis,* 314 U. S. 495 and *Keystone Driller Co.* v. *General Excavator Co.,* 290 U. S. 240, did not involve any confiscation for violation of the anti-trust laws. Those "unclean hands" cases have been adequately reviewed in the joint brief for appellants at pages 92-97.

(4) *Mercoid Corporation* v. *Mid-Continent Investment Company,* 320 U. S. 661; *Mercoid Corporation* v. *Minneapolis-Honeywell Co.,* 320 U. S. 680, did not authorize any confiscation of patents for anti-trust violation. The lower court had held that the patentee was lawfully bringing infringement suits. This Court reversed and held that the suits were unlawfully being brought against parties who were not infringing. This Court then remanded the case to the lower court, with an indication that such unlawful acts should be enjoined. There was not the slightest intimation that lawful use of the patents involved would be affected.

(5) *United States* v. *Bell Telephone Co.,* 128 U. S. 315, and *Hazel-Atlas Co.* v. *Hartford-Empire Co.,* 64

Sup. Ct. Rep. 997, did not involve any confiscation of patents for violation of the anti-trust laws. In those two cases this Court held, in complete agreement with the Government's stipulations herein, that patents may only be set aside in a "direct proceeding" brought by the Government for that purpose (64 Sup. Ct. Rep. 997 at 1003). This ruling would exclude the present surrender or setting aside of patents (see Transcript of November, 1943 argument, p. 317) in a totally collateral anti-trust proceeding.

(6) *Altoona Theatres* v. *Tri-Ergon Corp.*, 294 U. S. 477, had nothing whatever to do with patent confiscation for violation of the anti-trust laws. It dealt with technical questions of statutory patent disclaimers and the effects thereof.

(7) *Public Service Commission* v. *Havemeyer*, 296 U. S. 506, and other franchise cases did not involve any patent confiscation for violation of the anti-trust laws. Those cases in each instance dealt with—

(a) a public franchise taking away rights from the public (whereas a patent does not, *United States* v. *Dubilier Condenser Corp.*, 289 U. S. 178, 186),

(b) which was granted in consideration for an obligation of the grantee to use it as specified (whereas a patent entails no obligation to use, *Continental Paper Bag Company* v. *Eastern Paper Bag Company*, 210 U. S. 405, 428-430), and

(c) which was revoked for "misuse" consisting of the failure to use it as specified (whereas a patent whenever loosely referred to as a franchise, *Morgan* v. *Louisiana*, 93 U. S. 217, 223, has been held to be no more subject to revocation or destruction than physical property. *Seymour* v. *Osborne*, 11 Wall. 516, 533; *Cammeyer* v. *Newton*, 94 U. S.

225, 226; and other cases cited in the joint brief for appellants, pp. 89-92).

(8) *Consent decrees.* These decrees were frankly negotiated by the Department on the theory that they must not only go as far as the law requires the defendants to go, but in addition must provide other "benefits" sought by the Department *which were not called for by law.* Cf. D. of J. Release of May 18, 1938, C. C. H. Trade Reg. Serv. (8th Ed.), Par. 17,002, p. 23,302 These decrees are totally worthless as precedents.

(b) *Cases ruling on patent confiscation.*

(1) *Standard Sanitary Mfg. Co.* v. *United States,* 226 U. S. 20, however, did directly involve the issue of patent confiscation for anti-trust violation—and is an authority squarely refuting the contentions of the Department. This Court declined in that case to impose such a penalty—the resulting decree expressly stating that the patentee retained the right to grant "lawful licenses" (Decrees and Judgments in Federal Anti-Trust Cases (1918), p. 265).

(2) *United Shoe Machinery Co.* v. *United States,* 258 U. S. 451; *International Business Machines Corp.* v. *United States,* 298 U. S. 131; *Ethyl Gasoline Corp.* v. *United States,* 309 U. S. 436; and *United States* v. *Univis Lens Co.,* 316 U. S. 241, discussed at pages 32-33, *supra,* similarly involved the issue of patent confiscation for anti-trust violation. In each of those cases this Court similarly declined to inflict such an unauthorized penalty.

(3) *Standard Oil Company* v. *United States,* 283 U. S. 163, finally, referred incidentally to the issue of patent confiscation for anti-trust violation. The dictum of the Court in so far as applicable to the instant case is that when the Sherman Act requires licensing it is "at reasonable rates" (p. 172).

The Department, in addition to citing cases actually holding *contrary* to its views on patent confiscation, has sought to reargue the merits with respect to Hartford's patent acquisitions. In conformance with the Court's order of May 15, 1944, this issue is not reargued here. We believe we are justified, however, in pointing out a few typical errors of fact into which the Department has fallen.

Fraud: The Department attacks the validity of 3 Hartford patents in addition to the one before this Court in *Hazel-Atlas* v. *Hartford-Empire Co.*, 64 Sup. Ct. Rep. 997 (Government brief on reargument, pp. 108-112). We wish to point out that this attack is in the face of an express stipulation that Hartford's patents were not being attacked in this suit—on the basis of which Hartford's witnesses were unable to present their side of this controversy (See *e.g.*, Stip., R. VIII, 5634-7). The true facts with respect to the Hitchcock demonstration, for example, were barred (R. VI, 4586). We wish further to emphasize that even the incomplete facts contained in the record fail to substantiate the Department's erroneous construction of the would-be humorous cliché concerning the "charnel house". (For the relevant details, in so far as the record permits, see the Hartford original reply brief, pp. 9-13).

Improper practices: The Department charges that certain Hartford patents contain overly broad claims as the result of improper Patent Office practices (See *e.g.*, Government brief on reargument, p. 79). The Department again is making a contention which Hartford was barred below from disproving. The Department not only stipulated below that it did not attack the validity of any Hartford patents, but that it did not challenge the propriety of any award of priority to any patent claim (Stip., R. VIII, 5634). (For a

general discussion of such facts as are in the record relating to these practices, see the Hartford original reply brief, pp. 2-26).

Suppression: The Department finally asserts that as between 18% and 25% of Hartford's patents alone have been marked on its patent plates, Hartford must have taken out a large proportion of the remaining patents with no intention to use them except to "block" and "fence" others (Government brief on reargument, p. 207). This charge is typical of the Department's present brief. We hereby offer to prove—if permitted the opportunity—that a research organization of necessity must take out *many more* patents which turn out to be impractical of use than those which prove to be practical, and that Hartford in fact uses an *unusually high* percentage of its patents. We further wish to emphasize once more the irrelevant nature of this unfair charge of "suppression". The purpose of the patent laws is to obtain the public disclosure of inventions regardless of the mental processes of the inventor or the subsequent use or non-use of the invention. Every purpose of the patent laws is therefore fulfilled if an invention is publicly *disclosed*—even though its use should be "suppressed" during the short term of the patent—and this Court has so held (See joint brief for appellants, pp. 188-200).

Concessions of the Department.

We have previously pointed out that the Department itself has conceded that the present judgment must be modified in many particulars—although its concessions are obviously inadequate (See joint brief for appellants, pp. 223-227).

The following additional concessions—relevant to the present analysis of the Department's arguments—may be noted:

(a) The Government admits that the courts have never before had "any experience" with a receiver of the nature of the Hartford receiver (Transcript of November, 1943 argument, p. 354). In short, the receivership is unprecedented.

(b) The Government accepts the proposition that the courts have no authority "to confiscate physical property" (Government brief on reargument, pp. 119-120). This means logically that the courts also lack authority to confiscate patents, for in decision after decision this Court has repeatedly affirmed that patents are entitled to the same protection as physical property (Joint brief for appellants, pp. 89-90).

(c) The Government admits that the provision for the compulsory sale of Hartford's machines is merely "supplementary" to and thus stands or falls on the judgment prohibition of leasing (Government brief on reargument, p. 62). This judgment provision should therefore fall with the arbitrary prohibition of leasing.

(d) The Government concedes that Hartford is "entitled" to have remedied the "impairment of its capital" (Transcript of November, 1943 argument, p. 353). Hartford is entitled also to receive payment for the benefits which it gave under court compulsion to its licensees.

(e) The Government attempts to argue that Congress has rejected the long list of bills seeking to enact its novel judgment provisions into the law because Congress believed that those provisions were in the law already. The Department, however, has already put itself on record to the contrary (Joint brief for appellants, pp. 3-4, 7, 96).

IV.

A Factual Hearing Should Be Ordered.

Defendants' alternative suggestion.

Hartford has for four years been furnishing its patented machines—under unlimited, non-exclusive lease-license contracts—to all responsible applicants.

Any present or potential glass manufacturer, who could meet the Department's test (Ex. H-6113, R. IX, 6695, R. XXVIII, 16256 at 16261) of being financially responsible, has been eligible for these licenses. Forty-odd licensees, including a few new ones, have been operating under these licenses. The fields, in the words of the Government, have been:

"* * * wide open" (fol. 3695).

The defendants, upon the basis of these facts, have outlined a suggested alternative judgment which they believe would be both effective and practical (see joint brief for appellants, pp. 227-229). They have done so on the assumption—which we have demonstrated above to be justified—that the provisions of the present judgment are impossible and that accordingly some alternative is imperative.

Department's objections to alternative.

The Department, while conceding certain errors to exist in the provisions of its judgment, objects strenuously to the alternative proposed by the defendants.

The Department's objections are many—both legal and factual. Primarily, however, they are to the effect that competitive conditions will not *in fact* thereby be restored (Government brief on reargument, p. 238).

In short, the Department raises a factual issue.

If we turn to the present record on appeal of 29 volumes, however, to marshal the facts relating to this issue, we discover that this voluminous record is totally barren of any testimony whatever on the nature and operation of the relief herein. This judgment—representing a test case of national importance—has been entered in a vacuum exactly as drafted by the attorneys for the Department.

Indeed, the only significant reference to testimony on relief in this huge record is a ruling by the trial court which excluded the introduction of such evidence by the defendants (R. VII, 4963-4).

The Department freely concedes that the only hearing which was permitted the defendants below, with respect to the present judgment, was one solely as to form (Government brief on reargument, p. 3).

Practical suggestion.

Hartford respectfully suggests that this absence of a factual record on remedy furnishes the key to this appeal.

The reason why the present issues as to remedy are frequently so bewildering in their complexity is that it is difficult to evaluate them without a background of fact. As a result, imagination has been freed of the shackles of fact and has in too many instances wandered into the fields of speculation. It has been apparent from the face of the document that the Department-drafted judgment could not work, but it has been extremely difficult to prove what specific alternatives thereto would or would not be practical.

In short, the complexity of this appeal is attributable directly to the departure below from the basic rule of antitrust procedure enunciated in *United States* v. *American Tobacco Co.*, 221 U. S. 106, which has heretofore been uniformly followed by the courts. This Court in that case had reversed the trial court, and accordingly had been forced

to view the question of remedy "from an original point of view" (p. 185). In the process of thus enunciating the appropriate rule of procedure to be followed by a court in drafting a judgment, in the first instance, this Court declared the salutary rule to the effect that before a remedy of complex nature is imposed, a full hearing should be held at which all parties are heard and adequate opportunity is given to present and evaluate alternative proposals for relief.

We believe that if the parties in the present case were given their day in court on the issues of relief now before this Court—in accordance with the procedure of the *American Tobacco* and other similar cases—many of the present troublesome problems briefed by the parties would be eliminated by the cold facts.

Hartford therefore respectfully suggests that this Court, in ruling upon the present appeals, may solve many of the issues herein raised by ordering a return to the basic principles of equity procedure disregarded below. This procedure, if applied to these appeals, would be as follows:

> (a) This Court would generally enunciate the controlling principles of law which should apply in this test case—for the desired enlightenment not only of the present litigants but also of Government and business generally (D. of J. Release with respect to this case, December 11, 1939, CCH Trade Reg. Serv. (8th Ed.), Par. 17,035, p. 23,357).
>
> (b) This Court would then order such measures of relief as can be determined adequately from the present record.
>
> (c) This Court would finally order a full hearing to be held on such aspects of the relief as cannot be determined adequately from the present record—at

which hearing all parties should be permitted to present the facts relative to the guiding principles of law enunciated by the Court and to submit and evaluate alternative proposals.

We believe that this procedure would not only conform to the previous rulings of this Court, but would accord as well with an early ruling of the very trial court in this case —which ruling was subsequently disregarded in the peremptory entry of the present judgment—as follows:

> "If the Court should ultimately conclude that a conspiracy in restraint of trade existed, that there existed an illegal monopoly, does exist an illegal monopoly, created through illegal means, that that monopoly is in existence in restraint of trade, operating in restraint of trade, the Court might then come to the question of what should be done with the Hartford-Empire Company. That, it seems to me, is the time, through testimony to the Court or a Special Master appointed by the Court, for plans to be submitted and testimony offered on what course ought to be followed by the Court in effecting a remedy" (R. VII, 4963-4).

Conclusion.

This case—the Department has on many occasions made abundantly clear—does not involve Hartford alone.

It is a great test case and it is being watched by the entire country as such. Indeed the representatives of a large number of the great companies whose research has contributed so much to the economic progress and war effort of this country have been attending in person the hearings of this case.

What this Court does in this case will have a profound effect upon the entire future of scientific research in the United States.

We submit therefore that if those who obtain patents or give or accept licenses which thereafter are held to involve violations of the anti-trust laws are denied by this Court the opportunity to correct their errors, and instead are held to forfeit their patents and other assets —and, more than that, are held to be permanently deprived of the right to do acts under reasonable safeguards which are intrinsically lawful and proper—then the effective functioning of our patent system itself will be threatened.

Patent applications, patent purchases and patent licenses will become so hazardous, in view of the vagueness of the anti-trust laws and the severity of their penalties, that business will hesitate to enter into these transactions.

Inevitably research organizations will tend to retain their inventions as trade secrets, instead of disclosing them through patent applications and sharing them through transfers and licenses.

The interchange of research and development which has substantially contributed to making this country the leading industrial nation of the world and has so greatly promoted its war program will necessarily be gravely affected.

In short, if this Court should adopt the novel rules for which the Department now contends, then we assert—with all the earnestness in our power—that the Court will thereby have dealt to industrial research in this country

a blow which will profoundly and permanently impair not only its future war potential but its economic progress in peace time as well.

Respectfully submitted,

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